

Nitro Software Limited

ABN 15 079 215 419

Appendix 4E
Preliminary Financial Report
Year ended 31 December 2019



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Nitro Software Limited

Appendix 4E

Preliminary financial report

Reporting period

Current period: Year ended 31 December 2019

Previous corresponding period: Year ended 31 December 2018

Results for announcement to the market

All amounts are presented in US dollars unless specified otherwise

| Year ended 31 December (In USD'000) | 2019 | 2018 | Movement | % |
|---|---------|---------|----------|-----|
| Revenue from ordinary activities | 35,672 | 32,406 | 3,266 | 10% |
| (Loss) from ordinary activities after tax attributable to members | (7,931) | (5,521) | (2,410) | 44% |
| (Loss) attributable to members | (7,931) | (5,521) | (2,410) | 44% |

No dividends have been paid, recommended or declared during the year ended 31 December 2019.

| Net tangible assets per security (USD) | 2019 | 2018 |
|--|--------|----------|
| Net tangible assets per security | \$0.16 | (\$0.06) |

The previous corresponding period has been restated following the 9 for 1 share split undertaken on 18 November 2019.

Details of entities over which control has been gained or lost during the period

Nitro Software Limited ("Nitro" or "the Company") has not gained or lost control on any entities during the period

Audit status

The Appendix 4E is based upon the Consolidated Financial Reports which are currently being audited by PricewaterhouseCoopers.

Additional Appendix 4E disclosure requirements can be found in the Operating and Financial Review and the Appendix 4E financial information which contains the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity and Consolidated Statement of Cashflows and accompanying notes for the year ended 31 December 2019.

OPERATING AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2019

Operating and financial review

Nitro generates revenue through the sale of software licences, either on a right-to-access (subscription) basis, or on a right-to-use (perpetual) basis, as well as through providing maintenance and support for customers who licence software on a perpetual basis.

| Summary of financial results (statutory) USD millions | 2019 | 2018 | Change | % | 2019F ¹ |
|---|--------------|--------------|--------------|------------|--------------------|
| Subscription | 13.2 | 6.9 | 6.3 | 91% | 13.1 |
| Perpetual, maintenance and support | 22.5 | 25.5 | (3.0) | -12% | 22.3 |
| Revenue | 35.7 | 32.4 | 3.3 | 10% | 35.4 |
| Cost of sales | (3.7) | (3.8) | 0.1 | -3% | (4.0) |
| Gross profit | 32.0 | 28.6 | 3.4 | 12% | 31.4 |
| Sales and marketing | (18.5) | (15.4) | (3.1) | 20% | (18.4) |
| Research and development | (7.0) | (7.7) | 0.7 | -9% | (7.4) |
| General and administrative | (10.7) | (6.5) | (4.2) | 65% | (10.7) |
| Other income/(loss) | 1.2 | (1.2) | 2.4 | 200% | (0.2) |
| EBITDA before share-based payments | (3.0) | (2.2) | (0.8) | 36% | (5.2) |
| Share based payment expense ¹ | (0.8) | (0.6) | (0.2) | 33% | (0.9) |
| EBITDA | (3.8) | (2.8) | (1.0) | 36% | (6.1) |
| Finance costs | (1.8) | (0.6) | (1.2) | 183% | (1.8) |
| Depreciation and amortization expense | (2.0) | (2.0) | (0.0) | 5% | (2.0) |
| (Loss) before income tax | (7.6) | (5.4) | (2.2) | 42% | (10.0) |
| Income tax expense | (0.4) | (0.2) | (0.2) | 100% | (0.2) |
| (Loss) for the year | (7.9) | (5.5) | (2.4) | 44% | (10.1) |

| SaaS metrics ³ | 2019 |
|---|------|
| Gross margin | 90% |
| Net Revenue Retention | 126% |
| Annual Recurring Revenue (ARR) US\$ million | 16.9 |
| New Annual Recurring Revenue (New ARR) US\$ million | 6.7 |
| Lifetime value per customer (LTV) US\$'000 | 123 |
| Customer acquisition costs (CAC) US\$'000 | 43 |
| LTV/CAC (ratio) | 2.8x |

¹ Statutory forecast per the IPO Prospectus

² Share based payment expense is allocated to functional areas in the statutory statement of profit and loss. Of the S\$0.8 million expense in 2019, \$0.2 Million is allocated to sales and marketing expense, and \$0.6 million is allocated to general and administrative expense. For 2018, \$0.6 million was allocated to general and administrative expense.

³ Refer to the Appendix for detailed definitions of SaaS metrics

OPERATING AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2019

Revenue

Subscription revenue

Subscription revenue was \$13.2 million or 37% of total revenue for the year ending 31 December 2019, up 91% over \$6.9 million or 21% of total revenue for the same period in 2018. This increase was driven by new customer wins, including large enterprise customers such as Lloyds Bank, National Rail and Julius Bar, licence expansions at existing customers, and the continued transition of existing perpetual customers to subscription-based pricing during the year.

The Company measures growth in subscription revenue through new ARR added. New ARR added provides an indication of growth in subscription licence sales during the period through sales to new customers who purchase the Nitro Productivity Suite on a subscription basis, additional incremental licence purchases by existing subscription customers, and the conversion of existing perpetual-based licence customers to the subscription-based licensing model. New ARR added during 2019 increased 16% on a year on year basis, from \$5.8 million added in 2018 to \$6.7 million added in 2019. Consequently, ending ARR rose 66% during 2019 to \$16.9 million from \$10.2 million at the end of 2018.

Perpetual, maintenance and support revenue

As the Company continues to migrate existing customers to subscription-based licences, perpetual revenue is forecast to decline as a percentage of total revenue in FY2019 and FY2020. In FY2019, the sale of perpetual licences and accompanying maintenance and support contracts declined 12% to \$22.5 million in revenue or 63% of total revenue. In FY2018, perpetual, maintenance and support was \$25.5 million accounting for 79% of total revenue. The Company expects perpetual, maintenance and support revenue to continue to decline as a percentage of total revenue as we continue to migrate existing perpetual customers to the subscription-based licensing model and as we continue to add new enterprise customers who purchase subscription-based licences.

Gross profit and gross profit margin

Gross profit increased by \$3.4 million, up 12% during 2019, to \$32.0 million as compared to \$28.6 million in 2018 and was favorable to the prospectus forecast by \$0.6 million. The gross margin was 90% for the year, compared to 88% for 2018 and 89% in the prospectus forecast, largely due to lower cost of sales than planned. Cost of sales decreased as a percentage of revenue compared to 2018 as a result of the greater portion of revenue coming from subscription revenue, which has higher margins than perpetual revenue.

Cost of sales includes the cost of third party technologies that are used to host Nitro's cloud-based products, third party technologies that are embedded in the Company's technology, third party hosting services for the Company's online storefront and salaries, benefits, bonuses and other operating costs associated with the Company's customer support organisation.

OPERATING AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2019

Operating expenses

Sales and marketing

Sales and marketing expense of \$18.7 million in FY2019 was in line with the prospectus forecast. This compares to \$15.4 million in FY2018, an increase of \$3.2 million or 21%. As a percentage of total revenue, sales and marketing expenses were 52% and 48% of total revenue in 2019 and 2018, respectively. The increase in sales and marketing expense was driven by an increase in number of full-time equivalents including quota carrying sales representatives, business development resources, and sales operations and support, as well as increased marketing program spending focused on channel marketing, digital marketing and SEO/SEM and demand generation activities. Total sales and marketing headcount was 57 at the end of 2019 versus 63 at the end of 2018.

The Company measures the efficiency of sales and marketing by monitoring LTV/CAC ratios. The LTV/CAC ratio was 2.8x for 2019. We believe our LTV/CAC will improve over time as our subscription-based business grows.

Research and development

In FY2019, research and development expense was \$7.0 million, \$.4 million lower than the prospectus forecast and a decrease of \$0.7 million or 9% from \$7.7 million in FY2018. As a percentage of total revenue, research and development expenses decreased to 20% of total revenue in 2019 versus 24% in 2018. This decrease was the result of reduced people costs as the Company continued to transition its development team from San Francisco to Dublin and timing of hiring in the second half of 2019. Total research and development headcount at the end of 2019 was 42, as compared to 39 in 2018. During the year ended 31 December 2019, all research and development costs were expensed as they did not meet the recognition and measurement criteria under the AASB 138.

General and administrative expenses

In FY2019, general and administrative expenses were \$11.3 million, an increase of \$4.3 million or 61% from \$7.0 million in FY2018 and in line with the prospectus forecast. As a percentage of total revenue, general and administrative expense increased from 22% of 2018 revenue to 32% of revenue in 2019. The increase in general and administrative expense during 2019 is due to increased professional services and consulting expenses in relation to the IPO, increased costs related to increased headcount in the accounting and HR teams, and compliance costs associated with becoming a public Company.

Other items impacting the results

Other income/expense

In FY2019, other income was \$1.2 million, an increase of \$2.4 million or 200% from (\$1.2 million) in FY2018. The increase is primarily attributable to an unrealised foreign currency gain in 2019 of \$1.2 million, versus an

OPERATING AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2019

Other items impacting the results (*continued*)

Other income/expense (*continued*)

unrealised foreign currency loss in 2018 of \$0.5 million, a loss on disposal of asset in 2018 aggregating \$0.5 million and other expenses aggregating \$0.2 million.

Finance costs

In FY2019, finance costs were \$1.8 million, an increase of \$1.1 million or 171% from \$0.6 million in FY2018. The increase is primarily attributable to the implied interest related to the 20% discount on convertible notes issued during 2019 of \$1.3 million.

Cashflows

Cash and cash equivalents were \$47.0 million at 31 December 2019.

Operating cashflow of \$0.4 million in FY2019 was slightly higher than the operating cash outflow of (\$0.3 million) in FY2018. Gross receipts from customers in 2019 aggregated \$40.2 million, compared to \$35.8 million in 2018. Investing activities included \$0.7 million in acquisition of assets during 2019 relating to IT infrastructure.

Cash flow from financing activities included, \$44.8 million primary capital raising before IPO-related costs, \$5.0 million convertible note instrument issued in 2019 that was converted to equity on completion of the IPO, \$1.8 million from preference shares issued in December 2018, less \$4.5 million for the repayment of borrowings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

| USD '000 | NOTES | 2019 | 2018 |
|---|----------------|----------------|----------------|
| Revenue | 3, 4(a) | 35,672 | 32,406 |
| Cost of sales | | (3,650) | (3,846) |
| Gross profit | | 32,022 | 28,560 |
| Sales and marketing | | (18,659) | (15,435) |
| Research and development | | (7,016) | (7,670) |
| General and administrative | | (11,325) | (7,021) |
| Other income/(loss) | 5(a) | 1,175 | (1,188) |
| Finance costs | 13(b) | (1,761) | (649) |
| Depreciation and amortization expense | | (2,013) | (1,958) |
| (Loss) before income tax | | (7,577) | (5,361) |
| Income tax expense | | (354) | (160) |
| (Loss) for the year | | (7,931) | (5,521) |
| Other comprehensive income | | | |
| Item that may be reclassified to profit or loss | | | |
| Adjustment from translation from foreign controlled entities | | (169) | 239 |
| Other comprehensive (loss) / income for the year, net of tax | | (169) | 239 |
| Total comprehensive (loss) for the year | | (8,100) | (5,282) |
| Loss per share attributable to equity shareholders | | | |
| Earnings per share (US \$0.00) | | | |
| Basic loss per share ¹ | 7 | (0.11) | (0.08) |
| Diluted loss per share ¹ | 7 | (0.11) | (0.08) |

¹ Basic and diluted earnings per share in the comparative period has been restated following the 9 for 1 share split undertaken on 18 November 2019.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2019



| USD'000 | NOTES | 2019 | 2018 |
|--|---------|---------------|----------------|
| ASSETS | | | |
| <i>Current assets</i> | | | |
| Cash and cash equivalents | 9 | 47,017 | 4,049 |
| Trade and other receivables | 8, 4(b) | 6,663 | 6,004 |
| Current tax receivables | 6 | 91 | 28 |
| Other current assets | 9 | - | 305 |
| Total current assets | | 53,771 | 10,386 |
| <i>Non-current assets</i> | | | |
| Receivables and contract assets | 8, 4(b) | 17,485 | 16,049 |
| Property, plant, and equipment | 10 | 564 | 41 |
| Intangible assets | 11 | 64 | 923 |
| Deferred tax assets | 6 | 189 | 163 |
| Right of use assets | 13(c) | 3,058 | - |
| Other non-current asset | | 209 | 255 |
| Total non-current assets | | 21,569 | 17,431 |
| Total assets | | 75,340 | 27,817 |
| LIABILITIES | | | |
| <i>Current liabilities</i> | | | |
| Trade and other payables | | 5,569 | 3,748 |
| Borrowings | 13 | - | 2,700 |
| Deferred revenue | 4(b) | 18,930 | 15,703 |
| Lease liability | 13(c) | 1,393 | - |
| Total current liabilities | | 25,892 | 22,151 |
| <i>Non-current liabilities</i> | | | |
| Borrowings | 13 | - | 1,742 |
| Deferred revenue | 4(b) | 14,167 | 10,919 |
| Deferred tax liability | 6 | 344 | - |
| Lease liability | 13(c) | 1,540 | - |
| Total non-current liabilities | | 16,051 | 12,661 |
| Total liabilities | | 41,943 | 34,812 |
| Net assets/(liabilities) | | 33,397 | (6,995) |
| Contributed equity | | 90,209 | 42,555 |
| Other reserves | | 1,705 | 1,036 |
| (Accumulated Losses) | | (58,517) | (50,586) |
| Total equity / (deficiency in equity) | | 33,397 | (6,995) |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

| USD'000 | NOTES | CONTRIBUTED EQUITY | WARRANT RESERVE | EMPLOYEE EQUITY BENEFITS RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | (ACCUMULATED LOSSES) | TOTAL EQUITY |
|---|-------|-----------------------|--------------------|---|---|-------------------------|----------------|
| As at 1 January 2019 | | 42,555 | 76 | 3,711 | (2,751) | (50,586) | (6,995) |
| Loss for the year | | - | - | - | - | (7,931) | (7,931) |
| Other comprehensive income | | | | | | | |
| Exchange differences from translation of foreign operations | 2(f) | - | - | - | (169) | - | (169) |
| Total comprehensive income for the year | | - | - | - | (169) | (7,931) | (8,100) |
| Transactions with owners of the Company | | | | | | | |
| Shares issued on IPO, net of costs | 12 | 44,833 | - | - | - | - | 44,833 |
| Shares issued to convertible note holders | 13(b) | 6,199 | - | - | - | - | 6,199 |
| Share options exercised | | 289 | - | - | - | - | 289 |
| Employee share options granted | | - | - | 838 | - | - | 838 |
| Expenses directly attributable to the issue of shares | | (3,667) | - | - | - | - | (3,667) |
| As at 31 December 2019 | | 90,209 | 76 | 4,549 | (2,920) | (58,517) | 33,397 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

| USD '000 | NOTES | CONTRIBUTED EQUITY | WARRANT RESERVE | EMPLOYEE EQUITY BENEFITS RESERVE | FOREIGN CURRENCY TRANSLATION | (ACCUMULATED LOSSES) | TOTAL EQUITY |
|---|-------|-----------------------|--------------------|---|------------------------------------|-------------------------|--------------|
| As at 1 January 2018 | | 40,430 | 76 | 3,148 | (2,990) | (45,065) | (4,401) |
| Loss for the year | | - | - | - | - | (5,521) | (5,521) |
| <i>Other comprehensive income</i> | | | | | | | |
| Exchange differences from translation of foreign operations | 2(f) | - | - | - | 239 | - | 239 |
| Total comprehensive loss for the year | | - | - | - | 239 | (5,521) | (5,282) |
| <i>Transactions with owners of the Company</i> | | | | | | | |
| Issue of preference shares | 12 | 2,054 | - | - | - | - | 2,054 |
| Expenses directly attributable to the issue of shares | | 71 | - | - | - | - | 71 |
| Employee share options granted | | - | - | 563 | - | - | 563 |
| As at 31 December 2018 | | 42,555 | 76 | 3,711 | (2,751) | (50,586) | (6,995) |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

| USD '000 | NOTES | 2019 | 2018 |
|---|-------|---------------|----------------|
| <i>Cash flows from operating activities</i> | | | |
| Loss for the year | | (7,931) | (5,521) |
| <i>Adjustments</i> | | | |
| Depreciation and amortisation | | 2,013 | 1,958 |
| Share based payments | | 838 | 563 |
| Finance costs | | 1,761 | 649 |
| Loss on sales of asset | | - | 544 |
| Asset write-offs | | - | 38 |
| Net exchange differences | | (1,491) | 467 |
| <i>Change in operating assets and liabilities</i> | | | |
| (Increase)/decrease in trade and other receivables | | (3,466) | (8,198) |
| (Increase)/decrease in deferred tax assets | | (26) | (19) |
| (Increase)/decrease in tax receivable | | 12 | 9 |
| (Increase) / decrease in other receivables | | 348 | - |
| Increase/(decrease) in trade and other payables | | 1,556 | 725 |
| Increase/(decrease) in deferred income | | 6,475 | 8,779 |
| Increase/(decrease) in provision for income taxes | | 24 | (41) |
| Increase/(decrease) in net deferred tax liability | | 344 | (12) |
| Income taxes paid | | (99) | (210) |
| Net cash inflow/(outflow) from operating activities | | 358 | (269) |
| <i>Cash flows from investing activities</i> | | | |
| Payments for property, plant and equipment | | (689) | (52) |
| proceeds from sale of property, plant and equipment | | - | 23 |
| Receipt of loans from shareholders | | 31 | - |
| Net cash inflow/(outflow) from investing activities | | (658) | (29) |
| <i>Cash flows from financing activities</i> | | | |
| Proceeds from issue of ordinary shares | | 44,833 | 2,125 |
| Proceeds from issue of convertible notes | | 5,000 | - |
| Proceeds from issue of preference shares | | 1,750 | - |
| Proceeds from exercise of share options | | 121 | - |
| Transaction costs related to issue of shares | | (3,446) | - |
| Finance costs | | (511) | (649) |
| Payment for leases | | (1,182) | (249) |
| Repayment of borrowings | | (4,466) | (2,809) |
| Net cash inflow/(outflow) from financing activities | | 42,099 | (1,582) |
| Net increase/(decrease) in cash and cash equivalents | | 41,799 | (1,880) |
| Cash and cash equivalents at the beginning of the year | | 4,049 | 5,926 |
| Effect of movement in exchange rates on cash held | | 1,169 | 3 |
| Cash and cash equivalents at the end of the year | | 47,017 | 4,049 |

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION



FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 1: GENERAL INFORMATION

The notes include information which is required to understand the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the consolidated statement of cashflows, together referred to as the Appendix 4E financial information and is material and relevant to the operations and performance of the Group. The notes are organised into the following sections:

- General information
- Financial performance
- Investing activities
- Capital structure
- Other matters

Note 1: General information

(a) Reporting entity

Nitro Software Limited (the “Company” or “Nitro”) is a Company domiciled in Australia.

This Appendix 4E for the year ended 31 December 2019 comprises the Company and its subsidiaries (together referred to as the “Group”).

The Group is a for-profit entity and its principal activity during the financial year was providing software and support services in relation to document productivity.

(b) Authorisation for issue

These Appendix 4E has been authorised for issue by a resolution of the Board of Directors on 26 February 2019.

Note 2: Basis of preparation

(a) Statement of compliance

The Appendix 4E and the disclosures contained herein have been prepared in accordance with Australian Accounting Standards (“AASBs”) issued by the Australian Accounting Standards Board, the *Corporations Act 2001* and comply with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

(b) Principles of consolidation

Subsidiaries

The Appendix 4E incorporate the assets and liabilities of all subsidiaries of Nitro as at 31 December 2019 and the results of all subsidiaries for the year then ended. Nitro and its subsidiaries together are referred to in this

Note 2: Basis of preparation *(continued)*

(b) Principles of consolidation *(continued)*

this financial report as the Group or the Consolidated Entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Appendix 4E incorporates the assets, liabilities and equity of the following subsidiaries in accordance with the accounting policy described in this note.

| NAME OF THE ENTITY | COUNTRY OF INCORPORATION | EQUITY HOLDING | |
|-----------------------------|--------------------------|----------------|------|
| | | 2019 | 2018 |
| Nitro Software Inc | United States of America | 100% | 100% |
| Nitro Software EMEA Limited | Ireland | 100% | 100% |

(c) Going concern

The Appendix 4E has been prepared on a going concern basis which assumes that the Group will be able to continue its operations and pay its debts and obligations as and when they become due for payment. This assumption is based on the Group's projection of future cash outflow, cash inflows from operations and cash and cash equivalents as at the date of the balance sheet.

(d) Basis of measurement

The Appendix 4E has been prepared on the historical cost basis except for share based payments which are measured at fair value.

(e) Functional and presentation currency

The Appendix 4E has been presented in United States Dollars (USD), the Company's functional currency, consistent with the predominant functional currency of the Group's operations. The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance

Note 2: Basis of preparation (*continued*)

(e) Functional and presentation currency (*continued*)

with that instrument, amounts in the Appendix 4E have been rounded off to the nearest thousand dollars, unless otherwise stated.

(f) Foreign currency

Transactions related to the Group's worldwide operations are conducted in a number of foreign currencies. The majority of the subsidiaries have assessed USD as the functional currency, however, some subsidiaries, have functional currencies other than USD. Transactions and monetary items denominated in foreign currencies are translated into USD as follows:

| <i>Foreign currency item</i> | <i>Applicable exchange rate</i> |
|---------------------------------------|------------------------------------|
| Transactions | Date of underlying transaction |
| Monetary assets and liabilities | Period-end rate |
| Non – monetary assets and liabilities | Date of the underlying transaction |

Foreign exchange gains and losses resulting from translation are recognised in the income statement, except for foreign exchange gains and losses that relate to borrowings which are presented in the consolidated statement of comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other income or other expenses.

On consolidation, the assets, liabilities, income and expenses of non-USD denominated functional currency entities are translated into US dollars using the following applicable exchange rates:

| <i>Foreign currency amount</i> | <i>Applicable exchange rate</i> |
|--------------------------------|---------------------------------|
| Income and expenses | Date of underlying transaction |
| Assets and liabilities | Period-end rate |
| Equity and reserves | Historical rate |

Foreign exchange differences resulting from translation are initially recognised in the foreign currency translation reserve and subsequently transferred to the income statement on disposal of a foreign operation.

Note 2: Basis of preparation (*continued*)

(g) Use of judgements and estimates

In the preparation of the Appendix 4E, the Group management has identified a number of critical accounting policies under which significant judgements, estimates and assumptions are made. This can affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ for these estimates under different assumptions and conditions. This may materially affect financial results and the carrying amount of assets and liabilities to be reported in the next and future periods.

All judgements, estimates and underlying assumptions are based on most current facts and circumstances and are reassessed on an ongoing basis. The effect of revisions to these estimates are recognised prospectively.

Accounting policies, and information about judgements, estimates and assumptions that have had a significant impact on the amounts recognised in the Appendix 4E are disclosed in the relevant notes as follows:

- Revenue recognition (Refer note 4)
- Valuation of deferred tax assets and liabilities (refer note 7)

(h) Significant accounting policies

Accounting policies are disclosed within each of the applicable notes to the Appendix 4E to which these policies relate. The Group's accounting policies have been applied consistently to all periods presented in the Appendix 4E, and have been applied consistently by Group entities, except as detailed below:

- Except as explained in Note 13(c) –on account of adoption of AASB 16 Leases; and
- To ensure consistency with the current period, comparative figures have been restated where appropriate; and

(i) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact in the current or future reporting periods and on foreseeable future transactions.

Note 3: Segment reporting

This note provides results by operating segment for the year ended 31 December 2019. The operating segments are reported in a manner consistent with the internal reporting to the CEO and the Nitro Executive team. The CEO and the Nitro Executive Team are collectively the Chief Operating Decision Maker ("CODM").

The CODM assess the Group's performance on a product/service perspective and has identified two reportable segments:

- Subscription - being the sale of 'software-as-a-service' to businesses providing access to a licence.
- Perpetual licence and support - being the sale of perpetual licence products (including optional support services) both direct to customers and to businesses.

The CODM, primarily uses a measure of gross profit to assess the performance of the operating segments.

The assets, liabilities, other operating expenses and treasury operations are reviewed by the CODM on an aggregate basis and are not allocated to the operating segments. Operating segment assets and liabilities are hence not disclosed.

| USD '000 | 2019 | | | 2018 | | |
|---------------------|---------------|---------------|---------------|--------------|---------------|---------------|
| | SUBSCRIPTION | PERPETUAL | TOTAL | SUBSCRIPTION | PERPETUAL | TOTAL |
| Revenue | 13,193 | 22,479 | 35,672 | 6,887 | 25,519 | 32,406 |
| Cost of goods sold | (1,172) | (2,478) | (3,650) | (944) | (2,902) | (3,846) |
| Gross profit | 12,021 | 20,001 | 32,022 | 5,943 | 22,617 | 28,560 |

The geographical split of revenue is unavailable and would be prohibitive to obtain. In general, a large amount of revenue is generated by customers that are global, from transactions that cross multiple countries and where the source of revenue can be unrelated to the location of the users accessing the software. The CODM, does not monitor or review the geographical breakdown of the operations given the nature of the products and operations of the Group in relation to document productivity through the portable document format ("PDF").

There were no customers contributing more than 10% of revenue during the current and comparative period.

Note 4: Revenue and contract balances

(a) Revenue

The Group's revenue is derived from the sale of cloud-enabled software subscriptions, cloud-hosted offerings, term-based/subscription and perpetual software licences, associated software maintenance and support plans, consulting services, training and technical support.

Revenue from contracts with customers is disaggregated by the nature of product and services and timing of recognition which are most reflective of the impact of the industry and economic environment in which the Group operates.

| DISAGGREGATED BY PRODUCT CHARACTERISTICS USD ('000) | 2019 | 2018 |
|---|---------------|---------------|
| Subscription | 13,193 | 6,887 |
| Perpetual licences and support revenue | 22,479 | 25,519 |
| Total revenue | 35,672 | 32,406 |

| DISAGGREGATED BY TIMING OF REVENUE RECOGNITION USD ('000) | 2019 | 2018 |
|---|---------------|---------------|
| Products and services transferred at a point in time | 15,003 | 17,916 |
| Products and services transferred at over time | 20,669 | 14,490 |
| Total revenue | 35,672 | 32,406 |

Accounting policy: Revenue and Contract Balances

Revenue is recognised when a contract exists between the Group and a customer and upon transfer of control of products or services to customers in an amount that reflects the consideration the Group expects to receive in exchange for those products or services.

We enter into contracts that can include various combinations of products and services, which may be capable of being distinct and accounted for as separate performance obligations, or in the case of offerings such as cloud-enabled subscription licences, accounted for as a single performance obligation. Revenue is recognised net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies.

Note 4: Revenue and contract balances (*continued*)(a) Revenue (*continued*)

| Type of product or service | Nature and timing of satisfaction of the performance obligations, including significant payment terms | Revenue recognition policies |
|---|--|--|
| Sale of perpetual licences for on-device or desktop software | <ul style="list-style-type: none"> Customers obtain control of the software upon delivery of the software licence key and their acceptance or when the acceptance provisions have lapsed. The delivery of the software licence key is contingent upon payment by the customer in advance. Some contracts include maintenance and support of the product, the pricing for which is distinct and detailed separately from the price of the software licence. The maintenance and support agreements are generally for a 12-month period. Customers are able to generate new user licence keys for additional users after initial delivery of the initial software licence key through issuance of an order. This is treated as an amendment to the contract and invoiced accordingly. | Revenue from perpetual licences is recognised at the point in time the software is available to the customer, provided all other revenue recognition criteria are met. Revenue from maintenance and support contracts is recognised on a straight-line basis over the support term as the underlying service is a stand-ready performance obligation. |
| Subscription agreements for <ul style="list-style-type: none"> on-device or desktop software; and Fully hosted subscription services ("SaaS") | <ul style="list-style-type: none"> In relation to on device or desktop software, customers obtain control of the software upon delivery of the software licence key and their acceptance or when the acceptance provisions have lapsed In relation to SaaS, customers are granted access to the software, without taking possession of the software. Support and maintenance arrangements are built into all subscription agreements Subscription periods are typically entered into for 36 months and are billed annually in advance. All contracts have automatic renewal for a period of 12 months unless otherwise notified in writing prior to expiration of the contract term. subscription services represent a single obligation to provide continuous access to the software, maintenance and support including upgrades on an "if and when available" basis. As each day of providing access to the software is substantially the same and the customer simultaneously receives and consumes the benefit as access is provided, the Group has determined that its subscriptions services arrangement include a single performance obligation comprised of a series of distinct services. Customers are able to generate new user licence keys for additional users after initial delivery of the initial software licence key through issuance of an order. This is treated as an amendment to the contract and invoiced accordingly | Revenue from the Company's subscription services is recognised over time on a straight-line basis over the contract term beginning on the date that the Company's application suite or product is made available to the customer. In relation to automatic renewals, revenue is recognised over time on a straight-line basis based on the amount the Company expects to receive in relation to these services. |

Note 4: Revenue and contract balances (*continued*)

(b) Contract balances

| CONTRACT ASSETS USD ('000) | 2019 | 2018 |
|---|---------------|---------------|
| Trade receivables, net of loss allowances | 4,755 | 3,650 |
| Contract assets | 13,424 | 12,403 |
| Capitalised contract acquisition costs | 4,061 | 3,646 |
| Total contract assets | 22,240 | 19,699 |
| CONTRACT LIABILITIES | | |
| Deferred revenue | 33,097 | 26,622 |
| Total contract liabilities | 33,097 | 26,622 |

During the year ended 31 December 2019, approximately \$15,703K of revenue was recognised that was included in balance of deferred revenue as of 31 December 2018.

Remaining performance obligations were approximately US\$33,097K as of 31 December 2019. Approximately 57% of the remaining performance obligations are expected to be recognised over the next 12 months with the remainder recognised thereafter.

Accounting policy:

Trade receivables

A receivable is recorded when an unconditional right to invoice and receive payment exists, such that only the passage of time is required before payment of consideration is due. Timing of revenue recognition may differ from the timing of invoicing to customers. Certain performance obligations may require payment before delivery of the licence or service to the customer. Included in trade receivables on the consolidated statement of financial position are unbilled receivable balances which have not yet been invoiced and are typically related to multi-year subscription licence agreements that typically have 3-year terms and are billed annually in advance.

Contract assets

A contract asset is recognised when a conditional right to consideration exists and transfer of control has occurred. Contract assets are typically related to subscription and maintenance and support contracts where the transaction price allocated to the satisfied performance obligations exceeds the value of billings to date. Contract assets are included in trade and other receivables for the current portion and receivables and contract assets for the long-term portion on the consolidated statement of financial position.

Contract liabilities

Contract liabilities represents deferred revenue which primarily consists of billings or payments received in advance of revenue recognition from subscription services, including non-cancellable and non-refundable

Note 4: Revenue and contract balances (*continued*)

(b) Contract balances (*continued*)

Accounting policy: Contract liabilities (*continued*)

committed funds and deposits. Deferred revenue is recognised as revenue when transfer of control to customers has occurred. Customers are typically invoiced for these agreements in regular installments and revenue is recognised on a straight-line basis over the contractual subscription period. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, size and new business linearity within the quarter. Deferred revenue does not represent the total contract value of annual or multi-year non-cancellable subscription agreements.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, such as invoicing at the beginning of a subscription term with revenue recognised on a straight-line basis over the contract period, and not to receive financing from our customers. Any potential financing fees are considered insignificant in the context of our contracts.

Significant movements in the deferred revenue balance during the period consisted of increases due to payments received prior to transfer of control of the underlying performance obligations to the customer, which were offset by decreases due to revenue recognised in the period.

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognised, which includes deferred revenue and unbilled amounts that will be recognised as revenue in future periods.

Contract costs

The Group recognises an asset for the incremental costs of obtaining a contract with a customer if the Group expects the benefit of those costs to be longer than one year. The Group has determined that its sales incentive programs meet the requirements to be capitalised.

The costs capitalised under the AASB 15 include sales commissions paid to our sales force personnel and channel partners, resellers and third parties. Capitalised costs may include portions of fringe benefits and payroll taxes associated with compensation for incremental costs to acquire customer contracts and incentive payments to partners. Capitalised costs to obtain a contract are amortised over the expected period of benefit, which is determined, based on the Group's analysis, to be 3 years. The Group evaluated qualitative and quantitative factors to determine the period of amortization, including contract length, renewals, customer life and the useful lives of our products. When the expected period of benefit of an asset which would be capitalised is less than one year, the Group expenses the amount as incurred. The Group regularly evaluate

Note 4: Revenue and contract balances (*continued*)

(b) Contract balances (*continued*)

Accounting policy: Contract costs (*continued*)

whether there have been changes in the underlying assumptions and data used to determine the amortization period.

| RECONCILIATION OF CARRYING AMOUNTS USD ('000) | 2019 | 2018 |
|---|--------------|--------------|
| At the beginning of the year | 3,646 | 1,838 |
| Additions | 2,619 | 2,947 |
| Amortisation | (2,204) | (1,139) |
| At the end of the year | 4,061 | 3,646 |
| <i>Capitalised contract costs included in</i> | | |
| <i>Non-current receivables</i> | 4,061 | 3,646 |

Loss allowance

The Group has two types of financial assets that are subject to AASB 9's new expected credit loss model which are trade receivables and contract assets. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Loss allowances in previous periods have not been material. Historical loss rates have been adjusted to reflect current and forward-looking information on factors impacting the ability of the customers to settle the outstanding debt.

| ON TRADE RECEIVABLES AND CONTRACT ASSETS USD ('000) | 2019 | 2018 |
|---|-----------|-----------|
| Loss allowance at the beginning of the year | 87 | 76 |
| Reversal/creation of loss allowance | (41) | - |
| Utilisation on write off's | (30) | (3) |
| Reversals for debts collected | 9 | 14 |
| Loss allowance at the end of the year | 25 | 87 |

Note 5: Other income and expenses

(a) Other income

| DISAGGREGATED BY NATURE USD ('000) | NOTES | 2019 | 2018 |
|--|-------|--------------|----------------|
| Net (loss)/gain on disposal of property, plant and equipment | | - | (544) |
| Net foreign exchange gains/(losses) | 2(f) | 1,136 | (467) |
| Interest income | | 40 | 34 |
| Other (loss)/income | | (1) | (211) |
| Total other income/(expense) | | 1,175 | (1,188) |

Interest income

Income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset

(b) Expenses

The loss before income tax includes the following material specific expenses

| DISAGGREGATED BY NATURE USD ('000) | NOTES | 2019 | 2018 |
|------------------------------------|-------|---------------|---------------|
| Wages and salaries | | 21,194 | 20,209 |
| Superannuation | | 77 | 51 |
| Share-based payments | | 838 | 563 |
| Employee benefits expenses | | 22,109 | 20,823 |

Accounting policy: Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which

Note 5: Other income and expenses (*continued*)

(b) Expenses (*continued*)

Accounting policy: Share based payments (*continued*)

case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Cost of sales

Cost of sales includes all expenses incurred attributable to the generation of revenue. These costs typically include payments made to retail merchants to manage revenue from online stores, third party technologies that are embedded in our product, services to ensure our services are able to be delivered (e.g. public cloud services), and personnel costs which are directly related to delivering post contract customer support.

Finance costs

Finance costs represents borrowing costs and includes interest, amortisation of discounts or premiums relating to borrowings and amortisation of costs incurred in connection with the arrangement of new borrowings facilities. Finance costs are expensed immediately as incurred. No finance costs have been capitalised.

Note 6: Income taxes

(a) Income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(b) Current tax

Current tax is the expected tax payable on the taxable income for the financial year, using applicable tax rates (and tax laws) at the balance sheet date in each jurisdiction, and any adjustment to tax payable in respect of previous financial years. The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Note 6: Income taxes (*continued*)

(c) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Appendix 4E. The following temporary differences are not provided for:

- The initial recognition of goodwill; and
- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit

(d) Measurement, recognition and presentation

Measurement of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other

Note 6: Income taxes (*continued*)

(d) Measurement, recognition and presentation (*continued*)

comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(e) Financial disclosure:

| INCOME TAX EXPENSE USD ('000) | Note | 2019 | 2018 |
|-------------------------------|------|------------|------------|
| Current tax expense | | 36 | 167 |
| Deferred tax expense | | 318 | (7) |
| Income tax expense | | 354 | 160 |

| NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE USD ('000) | Note | 2019 | 2018 |
|--|------|------------|------------|
| Loss before income tax | | (7,577) | (5,360) |
| Tax at the Australian Tax rate of 30% (31 December 2018: 30%) | | 2,273 | 1,608 |
| <i>Tax effect of amounts which are not deductible in calculating taxable income</i> | | | |
| Share based payments expense | | 14 | - |
| Transaction costs on issues of shares | | 888 | - |
| Effect of lower tax rates in USA, Ireland and UK | | 340 | 160 |
| Current year losses for which no deferred tax is recognised | | (3,161) | (1,608) |
| Income tax expense | | 354 | 160 |

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 2: FINANCIAL PERFORMANCE

Note 6: Income taxes (*continued*)(e) Financial disclosure (*continued*)

| DEFERRED TAX 2019 USD ('000) | BALANCE AT 1 JANUARY 2019 | RECOGNISED IN THE INCOME STATEMENT | RECOGNISED IN EQUITY | BALANCE AT 31 DECEMBER 2019 |
|---|------------------------------|---------------------------------------|-------------------------|--------------------------------|
| Deferred tax asset/(liability) | | | | |
| Share issue expenses | 42 | (31) | | 11 |
| Provisions and accruals | 63 | 84 | | 147 |
| Movements in currency exchange rates | 4 | (347) | | (343) |
| Property, plant and equipment | 55 | (79) | | (24) |
| Intangibles | - | 55 | | 55 |
| Net deferred tax asset/(liability) | 163 | (318) | - | (155) |
| <i>Deferred tax asset</i> | <i>163</i> | | | <i>189</i> |
| <i>Deferred tax liability</i> | <i>-</i> | | | <i>344</i> |

| DEFERRED TAX 2018 USD ('000) | BALANCE AT 1 JANUARY 2019 | RECOGNISED IN THE INCOME STATEMENT | RECOGNISED IN EQUITY | BALANCE AT 31 DECEMBER 2018 |
|---|------------------------------|---------------------------------------|-------------------------|--------------------------------|
| Deferred tax asset/(liability) | | | | |
| Share issue expenses | 42 | 0 | - | 42 |
| Provisions and accruals | 36 | 27 | - | 63 |
| Movements in currency exchange rates | - | 4 | - | 4 |
| Property, plant and equipment | 3 | 52 | - | 55 |
| Intangibles | 63 | (63) | - | - |
| Others | 12 | (12) | - | (0) |
| Net deferred tax asset/(liability) | 156 | 7 | - | 163 |
| <i>Deferred tax asset</i> | <i>168</i> | | | <i>163</i> |
| <i>Deferred tax liability</i> | <i>12</i> | | | <i>-</i> |

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 2: FINANCIAL PERFORMANCE

Note 6: Income taxes (*continued*)(e) Financial disclosure (*continued*)

The group has unused tax losses of US\$55,829K (31 December 2018: US\$49,045K) which has not been recognised as a deferred tax asset. The unused tax losses were incurred by the Group's United States operations and is not likely to generate taxable income in the foreseeable future. The Group is currently undertaking and assessment of the eligibility to carry forward these losses in the future.

Note 7: Earnings per share ("EPS")

Basic EPS is determined by dividing Profit/(loss) after tax attributable to members of the Company and Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted EPS is determined by adjusting the Profit/(loss) after tax attributable to members of the Company and Group, and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Dilution occurs when employee share options are included in outstanding shares.

| USD ('000) | NOTE | 2019 | 2018 |
|--|------|------------|------------|
| Net loss attributable to ordinary equity holders | | (7,931) | (5,521) |
| Net loss used in calculating diluted earnings per share | | (7,931) | (5,521) |
| | | 2019 | 2018 |
| Weighted average number of ordinary shares on issue used in the calculation of | | Shares | Shares |
| Basic and diluted earnings per share | | 73,133,789 | 65,832,314 |
| Earnings per share USD | NOTE | 2019 | 2018 |
| Basic and diluted | | \$(0.11) | \$(0.08) |

The Group's only potential dilutive ordinary shares are share awards granted under the employee share ownership plans. Diluted earnings per share calculation excludes instruments which are considered antidilutive.

For the year ended 31 December 2019, the effect of shares in relation to the Historical and Current LTIP could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.

Note 8: Trade and other receivables

| TRADE AND OTHER RECEIVABLES USD ('000) | NOTE | 2019 | 2018 |
|--|------|---------------|---------------|
| Trade receivables and contract assets, net | 4(b) | 18,178 | 16,053 |
| Contract acquisition costs, net | 4(b) | 4,061 | 3,646 |
| Prepayments | | 1,324 | 288 |
| Other receivables due from related parties | | 120 | 15 |
| Others | | 465 | 2,051 |
| | | 24,148 | 22,053 |
| <i>Trade and other receivables</i> | | | |
| <i>Current</i> | | 6,663 | 6,004 |
| <i>Non-current</i> | | 17,485 | 16,049 |

See accounting policy notes in [Note 4\(b\)](#)

Note 9: Cash and cash equivalents

| USD ('000) | NOTE | 2019 | 2018 |
|----------------------|------|---------------|--------------|
| Bank balances | | 47,017 | 4,049 |

Accounting policy

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

Restricted cash balances are disclosed as other current assets in the Appendix 4E.

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 3: INVESTING ACTIVITIES

Note 10: Property plant and equipment

(a) Reconciliation of carrying amounts

RECONCILIATION OF CARRYING AMOUNTS

| AS AT 31 DECEMBER 2019 USD ('000) | PLANT & EQUIPMENT | FURNITURE, FIXTURES & EQUIPMENT | LEASEHOLD IMPROVEMENTS | TOTAL |
|---|-------------------|------------------------------------|---------------------------|-------|
| Carrying value at the beginning of the year | 4 | 18 | 19 | 41 |
| Additions | 150 | 25 | 514 | 689 |
| Amortisation | (29) | (13) | (123) | (165) |
| Disposals | | | | - |
| FX adjustments | - | - | (1) | (1) |
| Carrying value at the end of the year | 125 | 30 | 409 | 564 |

AS AT 31 DECEMBER 2019

| | | | | |
|---------------------------------------|-------|-------|-------|-------|
| Cost | 595 | 154 | 569 | 1,318 |
| Accumulated depreciation | (470) | (124) | (160) | (754) |
| Carrying value at the end of the year | 125 | 30 | 409 | 564 |

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 3: INVESTING ACTIVITIES

Note 10: Property plant and equipment (*continued*)

(a) Reconciliation of carrying amounts (*continued*)

RECONCILIATION OF CARRYING AMOUNTS

| AS AT 31 DECEMBER 2018 USD ('000) | PLANT & EQUIPMENT | FURNITURE, FIXTURES & EQUIPMENT | LEASEHOLD IMPROVEMENTS | TOTAL |
|---|-------------------|------------------------------------|---------------------------|-------|
| Carrying value at the beginning of the year | 40 | 26 | 658 | 724 |
| Additions | - | 12 | 40 | 52 |
| Amortisation | (22) | (20) | (125) | (167) |
| Disposals | (14) | - | (554) | (568) |
| FX adjustments | | | | - |
| Carrying value at the end of the year | 4 | 18 | 19 | 41 |

AS AT 31 DECEMBER 2018

| | | | | |
|---------------------------------------|-------|-------|------|-------|
| Cost | 510 | 133 | 81 | 724 |
| Accumulated depreciation | (506) | (115) | (62) | (683) |
| Carrying value at the end of the year | 4 | 18 | 19 | 41 |

Accounting policy: Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 3: INVESTING ACTIVITIES

Note 10: Property plant and equipment (*continued*)

Accounting policy: Property, plant and equipment (*continued*)

immediately to its estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is de-recognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of furniture and fixtures and computer equipment is measured using the straight-line method over estimated useful lives of the assets, generally 3 to 5 years. Leasehold improvements are amortised over the lesser of the estimated useful life of the asset or the remaining lease term.

The depreciation rates used for each class of depreciable assets are:

- | | |
|--------------------------|-----|
| • Leasehold improvements | 20% |
| • Furniture and fittings | 33% |
| • Office equipment | 33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Accounting policy: Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the

asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 3: INVESTING ACTIVITIES

Note 11: Intangible assets

(a) Reconciliation of carrying amounts

| RECONCILIATION OF CARRYING AMOUNTS AS OF 31 DECEMBER 2019 USD ('000) | INTELLECTUAL PROPERTY | SOFTWARE | COMMERCIALISED SOFTWARE | DOMAINS | TOTAL |
|---|--------------------------|----------|----------------------------|---------|----------|
| Carrying value at the beginning of the year | 2 | - | 921 | - | 923 |
| Additions | - | - | - | - | - |
| Amortisation | (1) | - | (844) | - | (845) |
| Disposals | | | | | - |
| FX adjustments | | | (14) | | (14) |
| Carrying value at the end of the year | 1 | - | 63 | - | 64 |
| AS AT 31 DECEMBER 2019 | | | | | |
| Cost | 21 | 681 | 11,466 | 43 | 12,211 |
| Accumulated depreciation | (20) | (681) | (11,403) | (43) | (12,147) |
| Carrying value at the end of the year | 1 | - | 63 | - | 64 |

During the year ended 31 December 2019, all research and development costs were expensed as they did not meet the recognition and measurement criteria under the AASB's.

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 3: INVESTING ACTIVITIES

Note 11: Intangible assets (*continued*)

(a) Reconciliation of carrying amounts (*continued*)

| RECONCILIATION OF CARRYING AMOUNTS AS OF 31 DECEMBER 2018 USD ('000) | INTELLECTUAL PROPERTY | SOFTWARE | COMMERCIALISED SOFTWARE | DOMAINS | TOTAL |
|---|--------------------------|----------|----------------------------|---------|----------|
| Carrying value at the beginning of the year | 64 | 18 | 2,696 | - | 2,778 |
| Additions | - | - | - | - | - |
| Amortisation | (58) | (18) | (1,743) | - | (1,819) |
| Disposals | (4) | - | (32) | - | (36) |
| FX adjustments | - | - | - | - | - |
| Carrying value at the end of the year | 2 | - | 921 | - | 923 |
| AS AT 31 DECEMBER 2018 | | | | | |
| Cost | 24 | 723 | 11,480 | 43 | 12,270 |
| Accumulated depreciation | (22) | (723) | (10,559) | (43) | (11,347) |
| Carrying value at the end of the year | 2 | - | 921 | - | 923 |

During the year ended 31 December 2019, all research and development costs were expensed as they did not meet the recognition and measurement criteria as per the AASB's.

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 3: INVESTING ACTIVITIES

Accounting policy

Software development costs

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are Recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

The amortisation rates used for each class of intangible assets are:

- Intellectual property 20%
- Software 33% - 40%
- Capitalised software 50%
- Domains 33%

Software development costs include costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 4: CAPITAL STRUCTURE

Note 12: Contributed equity

| 2019 | Ordinary shares | | Preference shares | | | | | | | |
|---|--------------------|---------------|-------------------|----------|--------------|----------|--------------|----------|--------------|----------|
| | Shares | US\$'000 | Series A | | Series B | | Series C | | Series D | |
| | | | Shares | US\$'000 | Shares | US\$'000 | Shares | US\$'000 | Shares | US\$'000 |
| Balance at the beginning of the year¹ | 66,045,285 | 628 | 18,227,160 | 789 | 14,986,017 | 6,600 | 21,443,481 | 14,730 | 23,215,851 | 19,808 |
| Issue of shares during the year ² | 38,249,649 | 44,833 | - | - | - | - | - | - | - | - |
| Conversion to ordinary shares | 77,872,509 | 41,927 | (18,227,160) | (789) | (14,986,017) | (6,600) | (21,443,481) | (14,730) | (23,215,851) | (19,808) |
| Issue of shares on conversion of notes | 5,304,699 | 6,199 | - | - | - | - | - | - | - | - |
| Shares issued on exercise of options | 1,456,854 | 289 | - | - | - | - | - | - | - | - |
| | | | - | - | - | - | - | - | - | - |
| Expenses directly attributable to the issue of shares | - | (3,667) | - | - | - | - | - | - | - | - |
| Balance at the end of the year | 188,928,996 | 90,209 | - | - | - | - | - | - | - | - |

¹The number of shares at the beginning of the year have been adjusted for the impact of 9:1 stock split on 18 November 2019.

² On 11 December 2019, the Company completed a US\$44,833K capital raise (before costs), through a fully underwritten institutional placement of 38,249,694 new fully paid ordinary shares at the offer price of A\$1.72. The Company incurred a total of US\$6,627K in transaction costs of which US\$3,667K which are directly attributable to the issue of the share was recorded in the consolidated statement of changes in equity and the balance US\$2,960K recorded in the consolidated statement of comprehensive income.

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 4: CAPITAL STRUCTURE

Note 12: Contributed equity (*continued*)

| 2018 | Ordinary shares | | Preference shares | | | | | | | |
|---|-------------------|------------|-------------------|------------|-------------------|--------------|-------------------|---------------|-------------------|---------------|
| | | | Series A | | Series B | | Series C | | Series D | |
| | Shares | US\$'000 | Shares | US\$'000 | Shares | US\$'000 | Shares | US\$'000 | Shares | US\$'000 |
| Balance at the beginning of the year¹ | 65,594,529 | 498 | 18,227,160 | 789 | 14,986,017 | 6,600 | 21,443,481 | 14,730 | 21,262,680 | 17,813 |
| Issue of shares during the year | - | - | - | - | - | - | - | - | 1,953,171 | 2,000 |
| Conversion to ordinary shares | - | - | - | - | - | - | - | - | - | - |
| Shares issued on exercise of options | 358,002 | 71 | - | - | - | - | - | - | - | - |
| Cancellation of ESP | (251,046) | (68) | - | - | - | - | - | - | - | - |
| Employee share plan issue | 343,800 | 128 | - | - | - | - | - | - | - | - |
| Share issue expenses | - | - | - | - | - | - | - | - | - | (5) |
| Balance at the end of the year | 66,045,285 | 628 | 18,227,160 | 789 | 14,986,017 | 6,600 | 21,443,481 | 14,730 | 23,215,851 | 19,808 |

The balance of shares outstanding and issued have been adjusted for the impact of 9:1 stock split on 18 November 2019

Note 12: Contributed equity (*continued*)

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

During the year ended 31 December 2019, by a resolution of the members of the Company, the existing equity shares were split in a ratio of a 9 for 1 stock split.

(b) Preference shares

Series A, B, C and D Preference shares are entitled to receive any dividend declared by the Board as it they are equal to the number of Ordinary Shares which may be issued upon their conversion into Ordinary Shares.

(c) Options

As at 31 December 2019 there were 15,869,295(31 December 2018: 17,341,578) vested and unvested options on issue. These have been adjusted for the 9:1 stock split on 18 November 2019.

Note 13: Loans and borrowings

| LOANS AND BORROWINGS USD ('000) | NOTES | 2019 | 2018 |
|---|-------|--------------|--------------|
| <i>Current liabilities</i> | | | |
| Bank loans | 13(a) | - | 2,700 |
| Lease liabilities | 13(c) | 1,393 | - |
| Total current loans and borrowings | | 1,393 | 2,700 |
| <i>Non-current liabilities</i> | | | |
| Bank loans | 13(a) | - | 1,742 |
| Lease liabilities | 13(c) | 1,540 | - |
| Total non-current loans and borrowings | | 1,540 | 1,742 |
| Total loans and borrowings | | 2,933 | 4,442 |

Accounting policy

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the borrowings using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(a) Borrowings from Silicon Valley Bank ("SVB")

During the year ended 31 December 2019, the Company has repaid the borrowings from Silicon Valley Bank and there were no obligations in relation to these as at the date of the balance sheet. There were no breaches of financial covenants under the borrowing agreement.

Note 13: Loans and borrowings (*continued*)

(b) Convertible notes

In August 2019, the Company issued \$5 million of convertible notes at a face value of \$1 each. These notes had a maturity date of 31 December 2020 and were convertible on defined exit events. In this case the exit event was the IPO. The conversion price accordingly was, either:

- 80% of the Per Share Value; in case the IPO completed before 31 December 2019, or
- 75% of the Per Share Value; in case the IPO completed between 1 January 2020 and the maturity date, or
- the Per Share Capped Value which is implied by a total equity valuation of the Company equal to US\$200million;

Accordingly, the cost of US\$ 1,250K has been recognised as finance cost in the consolidated statement of comprehensive income which represents a 20% discount on per share value.

(c) Leases

The Group leases property and equipment. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. In 2019, the Group entered into two non-cancellable lease agreements for their office facilities in San Francisco, United States of America (USA) and Dublin, Ireland. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at their inception was 7.75% for USA and 5% for Ireland.

The Group also assessed leases existing as at 1 January 2019 in Australia, USA and Ireland ("2018 operating lease agreements"). As of the application of AASB 16, the 2018 operating lease agreements, had a lease term less than one year. As such, these were classified as short term leases using the practical expedients in AASB 16 and excluded from the recognition and measurement principles under the standard. Similarly, leases for other plant and equipment are considered as low value leases using the practical expedients in AASB 16 and excluded from the recognition and measurement principles under the standard.

Financial disclosures AASB 16

| RECONCILIATION OF CARRYING AMOUNTS AS AT 31 DECEMBER 2019 USD ('000) | | NOTE | PROPERTY |
|---|--|------|----------|
| Carrying value at the beginning of the year | | | - |
| Additions | | | 4,105 |
| Amortisation | | | (1,004) |
| Other adjustments | | | |
| FX adjustments | | | (43) |
| Carrying value at the end of the year | | | 3,058 |

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION
 FOR THE YEAR ENDED 31 DECEMBER 2019
 SECTION 5: OTHER MATTERS



Note 13: Loans and borrowings (*continued*)

(c) Leases (*continued*)

Financial disclosures AASB 16 (*continued*)

| AS OF 31 DECEMBER 2019 USD ('000) | NOTE | PROPERTY PROPERTY |
|--|------|----------------------|
| Cost | | 4,064 |
| Accumulated depreciation | | (1,006) |
| Carrying value at the end of the year | | 3,058 |

| LEASE LIABILITIES – MATURITY ANALYSIS AS OF 31 DECEMBER 2019 USD ('000) | | PROPERTY |
|--|------|--------------|
| | NOTE | |
| Contractual undiscounted cashflows | | |
| Less than one year | | 1,513 |
| One to five years | | 1,621 |
| More than five years | | - |
| Total undiscounted lease liabilities as at 31 December 2019 | | 3,134 |
| Lease liabilities included in the statement of financial position | | 2,933 |
| - Current | | 1,393 |
| - Non-current | | 1,540 |

The Group seeks to include extension options in its leases for operational flexibility. At the inception of the lease, the Group has assessed that it is not reasonably certain that the extension options will be exercised given the size of the business and future growth.

| AMOUNTS RECOGNISED IN PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019 | US\$'000 |
|--|----------|
| Interest on lease liabilities | 164 |
| Expenses relating to short term leases | 359 |
| Expenses relating to leases of low value assets, excluding short term leases of low value assets | 8 |

| AMOUNTS RECOGNISED IN THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 USD ('000) | Note | PROPERTY |
|---|------|----------|
| Total cash outflow for leases | | 1,182 |

SECTION 5: OTHER MATTERS

Note 13: Loans and borrowings (*continued*)*(c) Leases (continued)*

Changes to significant accounting policies

A new standard became applicable for the 1 Jan 2019 and the Group had to change its accounting policy as a result of adopting AASB 16 Leases

As a result of the change in accounting policy, the Group has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117. The cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

On adoption of AASB 16, the Group elected to apply the practical expedients in relation to.

Identification of a lease:

The Group applied AASB 16 only to contracts that were previously identified as leases under AASB 117 and IFRIC 4. Therefore, the definition of a lease under AASB 16 was applied to contracts that were entered into and changed on or after 1 January 2019.

Recognition and measurement of leases previously classified as operating leases under AASB 117

The Group has not applied the recognition and measurement principles of AASB 16 in relation to short-term leases with a lease term of 12-months or low-value assets. These are expensed on a straight-line basis over the lease term.

Impact of transition

As a lessee, the Group leases a number of assets including property and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all risks and rewards of ownership.

Leases classified as operating leases under AASB 117

Under AASB 16, as at 1 January 2019, the Group has no leases that would be classified as right of use assets as they are either low value assets or have a lease term of less than 12 months based on the practical expedients adopted by the Group on the application of the standard. Accordingly, there is no impact on the transition date.

Leases classified as finance leases under AASB 117

The Group has no assets that were classified as finance leases under AASB 117, accordingly, there is no impact on the transition date.

SECTION 5: OTHER MATTERS

Note 13: Loans and borrowings (*continued*)*(c) Leases (continued)*

Accounting policy from 1 January 2019

At inception of a contract, the Group assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Changes to significant accounting policies (*continued*)

At the commencement or modification of a contract that contains a lease, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Leases are recognised as right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Asset and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable because the lease is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lease exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lease would have to pay to borrow the funds necessary to obtain an asset or similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or above the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.
- Over the period of the lease.

NOTES TO THE APPENDIX 4E FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019
SECTION 5: OTHER MATTERS



Note 13: Loans and borrowings *(continued)*

(c) Leases (continued)

Changes to significant accounting policies *(continued)*

Financial disclosures AASB 117

Commitments for minimum lease payments in relation to non-cancellable leases within the next 12 months is US\$75K (31 December 2018: US\$212K)

Note 14: Commitments and contingencies

The Group had no contingent liabilities as at 31 December 2019 (31 December 2018: Nil). The Group has no significant commitments as at 31 December 2019 other than those disclosed in Note 13(c).

Note 15: Subsequent events

There were no subsequent events after the date of the balance sheet that would have an impact on the Appendix 4E as at 31 December 2019.

Appendix



SaaS metrics

Nitro uses certain information, measures and ratios to manage and report on performance which are prepared on a basis that is not in accordance with all relevant accounting standards (“Non-Statutory Information”). This Non-Statutory Information may exclude certain transactions, or present transactions or balances on a different recognition and measurement basis from that required or permitted by accounting standards. These measures do not have prescribed definitions and therefore may not be directly comparable to similarly titled measures presented by other entities.

Annual Recurring Revenue (“ARR”) is the annual amount of revenue the Group will recognise from subscription-based licensing agreements with customers who have entered into multi-year agreements for the right to access the Group’s software. The typical subscription contract length is three years. ARR represents the annual value of subscription revenue under such contracts. Nitro’s multi-year subscription-based licensing contracts provide visibility into revenue in future periods due to the recurring nature of those revenue streams. ARR is calculated by multiplying the monthly subscription revenue in the last month of the financial reporting period by 12;

New ARR added measures the incremental ARR added during a financial reporting period. The growth in ARR provides additional predictability and visibility into future revenue for the Group. New ARR added is calculated by subtracting the total monthly subscription revenue in the last month of the last prior reporting period from the total monthly subscription revenue in the last month of the current financial reporting period, multiplied by 12;

Net Revenue Retention (“NRR”) is the revenue generated in the current financial reporting period from subscription customers who were using the Group’s software in the prior financial reporting period, net of churn. NRR measures the incremental recurring revenue the Company generates from its existing subscription customers as they expand their usage of the Group’s solutions, which may be a result of adding additional licences within their organisation, or by expanding usage into new areas of their organisation that previously did not use Nitro’s solution. NRR greater than 100% is a potential indicator of customer satisfaction, and implies that customers are expanding their use of the Group’s software solutions over time. NRR is calculated by dividing the subscription and maintenance ARR from subscription customers in the last month of the period, by the subscription and maintenance ARR from the same cohort of subscription customers over the same period in the prior year;

Customer retention rate is the percentage of customers that renew their subscription agreements at the expiration of their current contract term as measured on an annual contract value basis. The Group believes customer retention rates can be indicative of customer satisfaction with Nitro’s software solutions and customer service. The inverse of the customer retention rate is commonly referred to as customer churn;

Quota carrying sales representatives are the number of sales representatives that are directly engaged in the sales process;

SaaS metrics (*continued*)

Lifetime Value/Customer Acquisition Cost (“LTV/CAC”) measures the ratio of “lifetime value” per customer to “customer acquisition cost”. The LTV/CAC ratio compares the value of a customer over their lifetime, compared to the cost of acquiring them.

LTV/CAC is calculated as follows:

- $LTV = (\text{new bookings} / \text{number of new customers}) / (1 - \text{customer retention rate})$; and
- $CAC = (\text{selling expense} + \text{direct marketing expense} + \text{marketing personnel expense}) / \text{number of new customers}$;

Gross profit is revenue less cost of sales. Gross profit represents the amount the Company retains after paying the cost directly associated with the sales of its products. Gross margin is gross profit expressed as a percentage of total revenue;

EBITDA before share-based payments is earnings before share-based payments, interest, taxation, depreciation and amortisation. Nitro uses EBITDA before share-based payments to evaluate the operating performance of the Company without the non-cash impact of depreciation and amortisation, and before share-based compensation, interest and taxation.

EBITDA is earnings before interest, taxation, depreciation and amortisation. Nitro uses EBITDA to evaluate the operating performance of the Company without the non-cash impact of depreciation and amortisation, and interest and taxation.

EBITDA should not be considered as an alternative to measures of cash flow under AASB and investors should not consider EBITDA in isolation from, or as a substitute for, an analysis of the results of Nitro’s operations;

Although the Directors believe that these measures provide useful information about Nitro’s financial performance, they should be considered as supplements to the measures that have been presented in accordance with the AASB’s and IFRS and not as a replacement for them. Because Non-Statutory Information is not based on AASB’s, IFRS, or any other recognised body of accounting standards, it does not have prescribed definitions, and the way Nitro calculates these measures may differ from similarly titled measures used by other companies. Investors should therefore not place undue reliance on Non-Statutory Information.
